



KEG RESTAURANTS LTD. and SUBSIDIARIES
(formerly Westward Leisure Concepts Ltd.)

Consolidated Financial Statements as of December 31, 1973
Together with Auditors' Report

To the Shareholders of

Keg Restaurants Ltd.:

We have examined the consolidated balance sheet of KEG RESTAURANTS LTD. (FORMERLY WESTWARD LEISURE CONCEPTS LTD.) (a British Columbia company) and subsidiaries as of December 31, 1973, and the consolidated statements of income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, subject to the effect on the balance sheet if the company is unable to conclude long-term financing, presently being negotiated, to repay the bank demand loan of \$592,089 which is classified as a non-current liability, the accompanying financial statements present fairly the financial position of Keg Restaurants Ltd. and subsidiaries as of December 31, 1973, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

May 31, 1974.

KEG RESTAURANTS LTD.

(FORMERLY WESTWARD LEISURE CONCEPTS LTD.)

CONSOLIDATED BALANCE SHEET--DECEMBER 31, 1973 AND 1972

| | <u>A S S E T S (Ncte 3)</u> | |
|--|-----------------------------|--------------|
| | <u>1973</u> | <u>1972</u> |
| CURRENT ASSETS: | | |
| Cash | \$ 3,200 | \$ 61,050 |
| Inventory, at the lower of average cost or replacement cost | 80,333 | 26,615 |
| Advances receivable- | | |
| Joint venture | 64,701 | - |
| Shareholder | 29,746 | - |
| Other | 28,387 | 9,270 |
| Prepaid expenses | 2,692 | 18,725 |
| | ----- | ----- |
| Total current assets | \$ 209,059 | \$ 115,660 |
| | ----- | ----- |
| INVESTMENT IN JOINT VENTURES, at equity | \$ 182,287 | \$ - |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT, at cost: | | |
| Land and buildings (Note 3) | \$ 534,327 | \$ 385,226 |
| Leasehold improvements | 1,001,340 | 353,411 |
| Equipment and furnishings | 365,664 | 195,991 |
| | ----- | ----- |
| | \$ 1,901,331 | \$ 934,628 |
| Less- Accumulated depreciation | 110,784 | 35,011 |
| | ----- | ----- |
| | \$ 1,790,547 | \$ 899,617 |
| | ----- | ----- |
| DEFERRED COSTS, net of amortization: | | |
| Restaurant pre-operating | \$ 64,124 | \$ 60,962 |
| Regional development | 41,552 | 14,335 |
| Other | 20,523 | 6,479 |
| | ----- | ----- |
| | \$ 126,199 | \$ 81,776 |
| | ----- | ----- |
| On behalf of the Board: | \$ 2,308,092 | \$ 1,097,053 |
| | ===== | ===== |
| <i>W. M. Midball</i> Director | | |
| <i>A. P. Capozzi</i> Director | | |

The accompanying notes are an integral part

| | <u>L I A B I L I T I E S</u> | |
|---|------------------------------|--------------|
| | <u>1973</u> | <u>1972</u> |
| CURRENT LIABILITIES: | | |
| Bank loan | \$ - | \$ 50,000 |
| Trade accounts payable | 157,568 | 68,956 |
| Accrued liabilities | 72,431 | 41,690 |
| Accounts payable for plant and equipment additions | 114,973 | 126,870 |
| Advances payable to shareholder | - | 18,539 |
| Income taxes payable | 13,763 | 57,475 |
| Current portion of long-term debt (Note 3) | 9,100 | 8,700 |
| Note payable | - | 112,500 |
| | ----- | ----- |
| Total current liabilities | \$ 367,835 | \$ 484,730 |
| | ----- | ----- |
| NON-CURRENT LIABILITIES (Note 3): | | |
| Demand bank loan | \$ 592,089 | \$ - |
| Notes payable (Note 2) | - | 134,858 |
| Mortgages and agreement payable, net of current portion | 214,535 | 178,511 |
| | ----- | ----- |
| | \$ 806,624 | \$ 313,369 |
| | ----- | ----- |
| DEFERRED INCOME TAXES | \$ 154,383 | \$ 21,500 |
| | ----- | ----- |
| MINORITY INTEREST (Note 2) | \$ - | \$ 34,217 |
| | ----- | ----- |
| COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Note 4) | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (Notes 2 and 4) | \$ 722,519 | \$ 180,210 |
| | ----- | ----- |
| Retained earnings- | | |
| Balance, beginning of year | \$ 63,027 | \$ 9,611 |
| Add- Net income | 193,704 | 53,416 |
| | ----- | ----- |
| Balance, end of year | \$ 256,731 | \$ 63,027 |
| | ----- | ----- |
| | \$ 979,250 | \$ 243,237 |
| | ----- | ----- |
| | \$ 2,308,092 | \$ 1,097,053 |
| | ===== | ===== |

this consolidated financial statement.

KEG RESTAURANTS LTD.
(FORMERLY WESTWARD LEISURE CONCEPTS LTD.)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

| | <u>1973</u> | <u>1972</u> |
|--|--------------|--------------|
| SALES | \$ 4,542,396 | \$ 1,489,090 |
| COST OF SALES | 3,920,003 | 1,262,521 |
| | ----- | ----- |
| Gross income | \$ 622,393 | \$ 226,569 |
| | ----- | ----- |
| ADMINISTRATIVE EXPENSES: | | |
| General | \$ 124,908 | \$ 56,013 |
| Regional offices | 101,463 | - |
| Interest on long-term debt | 28,101 | 17,354 |
| | ----- | ----- |
| | \$ 254,472 | \$ 73,367 |
| | ----- | ----- |
| Income before provision for income taxes and minority interest | \$ 367,921 | \$ 153,202 |
| PROVISION FOR INCOME TAXES | 154,142 | 71,275 |
| | ----- | ----- |
| Income before minority interest | \$ 213,779 | \$ 81,927 |
| MINORITY INTEREST (Note 2) | 20,075 | 28,511 |
| | ----- | ----- |
| Net income | \$ 193,704 | \$ 53,416 |
| | ===== | ===== |
| CONSOLIDATED EARNINGS PER SHARE (Note 5) | \$.11 | \$.04 |
| | ===== | ===== |

The accompanying notes are an integral part of this
consolidated financial statement.

KEG RESTAURANTS LTD.

(FORMERLY WESTWARD LEISURE CONCEPTS LTD.)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1973 and 1972

| | <u>1973</u> | <u>1972</u> |
|--|--------------|--------------|
| SOURCE OF FUNDS: | | |
| Operations- | | |
| Income before minority interest | \$ 213,779 | \$ 81,927 |
| Charges not involving the outlay of funds- | | |
| Depreciation | 75,773 | 29,971 |
| Amortization of deferred costs | 26,659 | 8,799 |
| Deferred income taxes | 132,883 | 13,800 |
| Joint venture loss | 6,159 | - |
| | ----- | ----- |
| | \$ 455,253 | \$ 134,497 |
| Proceeds of share issues (Note 2)- | | |
| Common shares | 403,336 | 180,110 |
| First preference shares | 138,973 | - |
| Demand bank loan | 592,089 | - |
| Mortgage | 65,000 | 178,511 |
| Notes payable | - | 85,058 |
| Other | 5,501 | (622) |
| | ----- | ----- |
| | \$ 1,660,152 | \$ 577,554 |
| | ----- | ----- |
| APPLICATION OF FUNDS: | | |
| Addition to property, plant and equipment | \$ 966,703 | \$ 820,696 |
| Minority interest acquired through issue of common shares (Note 2) | 54,292 | - |
| Investments in and advances to joint ventures | 188,446 | - |
| Deferred costs- | | |
| Restaurant pre-operating | 27,232 | 54,656 |
| Regional development and other | 49,351 | 2,233 |
| Repayment of mortgages, agreement and notes (Note 2) | 163,834 | - |
| Reduction of shareholder's advance | - | 58,150 |
| | ----- | ----- |
| | \$ 1,449,858 | \$ 935,735 |
| | ----- | ----- |
| Increase (decrease) in working capital | \$ 210,294 | \$ (358,181) |
| WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR | (369,070) | (10,889) |
| | ----- | ----- |
| Working capital (deficiency), end of year | \$ (158,776) | \$ (369,070) |
| | ===== | ===== |

The accompanying notes are an integral part of this consolidated financial statement.

KEG RESTAURANTS LTD.

(FORMERLY WESTWARD LEISURE CONCEPTS LTD.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The Company presently operates several restaurants through 50% owned joint ventures and plans to expand this type of operation in the future. The Company's proportionate share of revenue and expenses of these joint ventures is reflected in the statement of income. The Company's share of the joint venture operations was a loss of \$6,159 in 1973.

During 1973, the Company acquired the minority interest held in its subsidiaries through the issue of additional common shares. Part of this acquisition was on the basis that common shares of the Company would be issued according to a formula based on income of the subsidiaries for any of the years ending December 31, 1973, 1974 or 1975, as selected by the minority shareholders. If 1973 was selected as the determining year, 50,127 common shares would have been issued. The acquisition of the minority interest in the above subsidiaries has been accounted for as a purchase, and accordingly their share of the subsidiaries' income to June 1, 1973 (the effective date of the acquisition), has been included in the consolidated statement of income as minority interest.

b) Depreciation and Amortization of Plant and Equipment

Depreciation is calculated on a straight-line basis over 20 years for buildings and over 10 years for equipment and furnishings.

Leasehold improvements are amortized on a straight-line basis over the term of the lease plus options, to a maximum of 20 years.

c) Restaurant Pre-Operating Costs

In connection with the opening of new restaurants, certain pre-operating costs such as travel, rent, advertising and training, are incurred. These costs are deferred and amortized on a straight-line basis over a five year period from the date of commencement of operations.

d) Regional Development Costs

The development costs of new regions incurred prior to the opening of the first restaurant in the region are deferred and amortized on a straight-line basis over a five year period from the date of commencement of operations.

2. SHARE CAPITAL

a) Common Shares

There are 3,000,000 no par value common shares authorized.

The share transactions since December 31, 1971 are as follows:

| | <u>Shares</u> | <u>Amount</u> |
|--|---------------|---------------|
| Issued and outstanding, December 31, 1971 | 2 | \$ 100 |
| Issued during 1972- | | |
| For cash, net of expenses | 200,000 | 148,000 |
| In exchange for the shares of a subsidiary and the assignment of its shareholder's loan | 1,316,000 | 32,110 |
| | ----- | ----- |
| Issued and outstanding, December 31, 1972 | 1,516,002 | \$ 180,210 |
| Issued during 1973- | | |
| For cash, net of expenses | 250,000 | 350,600 |
| For acquisition of minority interest (Note 1(a)) | 133,330 | 52,736 |
| | ----- | ----- |
| Issued and outstanding, December 31, 1973 | 1,899,332 | \$ 583,546 |
| For acquisition of minority interest if December 31, 1973 is selected as fiscal year for determining number of shares to be issued (Note 1(a)) | 50,127 | - |
| | ----- | ----- |
| | 1,949,459 | \$ 583,546 |
| | ===== | ===== |

In connection with the issue of the 250,000 shares for cash in 1973, the holders of 1,316,000 shares of the Company agreed that if the net earnings per share (calculated on a fully diluted basis) of the Company for any of the years ended December 31, 1973, 1974 or 1975, do not exceed \$.175 per share, then on or before June 30, 1976, they would surrender to the Company by way of a gift, that number of shares that bears the same proportion of the 1,316,000 shares now held by the shareholders as the short-fall in earnings per share bears to \$.175. The short-fall in earnings per share shall mean the difference in earnings per share between the larger of:

- i) the earnings per share achieved by the Company during the fiscal year ending December 31, 1975, or
 - ii) the highest average earnings per share achieved by the Company during two of the three fiscal years ending December 31, 1973, 1974 or 1975,
- and earnings per share of \$.175.

2. SHARE CAPITAL (Cont'd)

a) Common Shares (Cont'd)

The Company has granted options to certain joint venture partners and licencees to exchange their interests in the joint ventures or restaurants operated under licence for common shares of the Company based upon the earnings of the joint venture or licenced restaurant.

b) First Preference Shares

In June 1973, the authorized capital of the Company was increased by the creation of 250,000 non-voting participating as to dividends, redeemable first preference shares with a par value of \$1.00 each. 138,973 first preference shares were issued during 1973 in exchange for notes plus accrued interest thereon aggregating \$138,973 payable to shareholders owning the minority interest referred to in Note 1(a).

The first preference shares are redeemable at par by March 31, 1976, or at any time prior thereto. If the shareholders require redemption prior to March 31, 1976, they will also be required to exercise their option for common shares to be issued as outlined in Note 1(a).

3. LONG-TERM DEBT

| | 1973 | | 1972 | |
|--|-----------|---------------------|-----------|---------------------|
| | Long-Term | Due Within One Year | Long-Term | Due Within One Year |
| Demand bank loan, prime interest rate plus 2% | \$592,089 | \$ - | \$ - | \$ - |
| Notes payable | - | - | 134,858 | - |
| 9% agreement for sale, payable at \$3,500 per year plus interest | 28,000 | 3,500 | 31,500 | 3,500 |
| 9% mortgage | 141,535 | 5,600 | 147,011 | 5,200 |
| 9-1/2% mortgage | 45,000 | - | - | - |
| | \$806,624 | \$ 9,100 | \$313,369 | \$ 8,700 |
| | ===== | ===== | ===== | ===== |

The bank loan is secured by a floating charge on all assets and by guarantees aggregating \$600,000 of a director and a company in which a director has a beneficial interest; the latter receives a fee of 2% per year on 36% of the loan outstanding (maximum loan guaranteed is \$216,000). The bank loan is classified as long-term as the loan will be repaid out of long-term financing committed but not yet concluded.

Subsequent to December 31, 1973, the building securing the 9% mortgage was sold and the mortgage on the building was assumed by the purchaser.

3. LONG-TERM DEBT (Cont'd)

Also subsequent to December 31, 1973, the 9-1/2% mortgage was retired from the proceeds of an 11-1/2% mortgage in the amount of \$71,000 due on May 1, 1976. Only interest payments are required on the new mortgage until maturity.

4. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

- a) The Company and its subsidiaries have lease commitments on various buildings varying in terms from two to thirty years. The aggregate annual rentals, excluding additional payments based on sales, payable on the leases will be approximately \$135,000 per year over the next five years.

The Company has guaranteed the lease of a licenced restaurant. The annual rent payable by the licensee under this lease is approximately \$15,000 per year over the next five years.

The joint ventures, in which the Company is a participant, have lease commitments of ten years each on various buildings. The aggregate annual rentals, excluding additional payments based on sales, payable on these leases will be approximately \$60,000 per year over the next five years.

- b) The Company has guaranteed bank loans of joint ventures aggregating \$133,000.
- c) Pursuant to a share purchase plan to be established in 1974, an officer of the Company will acquire 30,000 common shares of the Company for \$30,600 and 30,000 common shares as of October 1, 1974, at 85% of market value at that date. The purchases are to be paid as to 20% within 3 years, as to 40% within 4 years and as to 40% within 5 years of the dates of purchase.
- d) In consideration for personal guarantees of a bank line of credit for the Company, the Company granted a director and a company in which a director has a beneficial interest, options to purchase up to 100,000 common shares of the Company at the following prices according to the date exercised:

| | |
|--|--------------|
| September 15, 1973 to September 14, 1974 | \$1.50/share |
| September 15, 1974 to September 14, 1975 | \$1.75/share |
| September 15, 1975 to September 14, 1976 | \$2.00/share |

No share options were exercised during the current year.

5. CONSOLIDATED EARNINGS PER SHARE

The earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective periods. The 50,127 shares to be issued, as described in Note 2, were included in the calculation as if they had been issued June 1, 1973. The exercise of the options referred to in Notes 2 and 4 would have had an insignificant effect on this calculation.

6. DIRECTORS' AND OFFICERS' REMUNERATION

The aggregate remuneration paid to directors and senior officers of the Company during the year was \$93,800.